Monday, November 24th, 2008

Well, you haven't heard from me for a while. It's not because I forgot about you or my Mac broke or something. There was that little matter of that election which required my attention earlier this month and that I had not been to Washington for almost 6 weeks. I have to say, being home in California for 6 weeks was pretty nice. There is a reason I don't live on the East Coast and a little time at home always reminds me of that.

And as far as that election, I thank the people of the 48th Congressional District for their confidence to have me represent them in Washington for a 3rd term. I will not let you down.

You may recall in 1992 that then-presidential candidate Bill Clinton had signs posted in his campaign office that read "it's the economy stupid" to remind his team of the main campaign issue in that year. Once again, the economy is issue number one....and two and three. As I write this, I am flying home on Virgin America after having been in Washington all week. One of my committees, the Financial Services Committee, heard testimony from Secretary Paulson, Fed Chairman Bernancke and the CEOs of the big 3 US automakers. Here is what I know about where we are and where we are going with the economy and financial markets:

Credit Markets: The last time I wrote you was after we had passed the Financial Rescue Plan bill with my support. At that time, we were perilously close to a complete collapse of our financial markets which would have resulted in thousands of bank failures and an unimaginable effect on our economy. About a month ago, the credit markets started improving and have been improving some ever since. They are still a long way from normal, but I believe we have avoided the abyss scenario. That was the purpose of the Rescue Plan and it had the desired effect. Economists from all sides of the political spectrum (liberal, conservative, libertarian) agreed with that in our committee this week. Credit markets should gradually improve now but it will clearly take at least a few more months to return to some normalcy.

Economy: But, as I'm sure I don't need to tell you, the economy stinks and is still getting worse. The credit market disruption, along with other factors, have put economic conditions in a tailspin from which it is difficult to see recovery right now. Just as investment firms de-leveraged to reduce debt exposure as the value of their assets fell, consumers are now doing the same thing for the same reason. In my opinion, we will need a huge fiscal stimulus from the federal government next year to stop this spiral down. That stimulus should include some infrastructure spending, which we need to do anyway but which will stimulate some job growth right now. But we also need some targeted tax incentives to draw some consumers out of their shells back into the market again. One person's spending is another person's income. If no one spends, no one has income. That's how economies shrink. Specifically, I think those tax incentives should be specifically geared to getting people to buy homes and cars, the two segments of the economy that are dragging everything else down with them. In addition, say, to a tax credit for buying a home, we could provide cheap 30 year fixed rate financing through Fannie Mae and Freddie Mac which the government now owns. The government can borrow money very cheaply now (the interest rate on a 90 day treasury bill is effectively 0% as I write this) so it could lend cheaply but responsibly and create an environment that would be too good to pass up. Such a stimulus won't be as effective unless the credit markets are functioning again, so we shouldn't do it until late winter or spring next year.

You may have noticed that we Republicans are not exactly in charge in DC and Nancy Pelosi does not call me for advice and counsel. But I will do the best I can to push forward ideas that I think will shorten the depth and duration of this recession. People are losing their jobs, their homes, and their retirements at a rapid rate. And it's not just the people who borrowed more than they should have, or the investors who took on too much leverage. It has now extended way way past that. It is not acceptable to just watch and hope it ends soon. We can intervene without sacrificing too much long term growth opportunity. And we should intervene.

Other Actions: Treasury will have invested roughly half of the $700 billion in the rescue package by the time you read this. Secretary Paulson indicated that one of the things that Treasury is considering is a way to leverage treasury's investment to get more private investment in the banking system so they can loan again. One way to do this would be to have Treasury offer matching investment funds. So, if a bank goes out and raises $5 billion of new equity capital, treasury will match that with a preferred stock investment. I think this is a good idea to double the capital effect but also to get some private capital off the sidelines. There are also numerous foreclosure prevention programs in place at the Fed, the FDIC, Treasury and Fannie and Freddie, as everyone is better off if preventable foreclosures can be turned into debt restructurings.

Obama Financial Appointments: President-elect Obama has picked CBO Director Peter Orszag to be his budget director and apparently has chosen NY Fed President Tim Geithner as his Treasury Secretary. I know Peter Orszag well and, although we disagree on a number of tax policy issues, he is smart, fair, and knows the budget inside and out. I do not know Geithner although, since he is a fed President now he should be able to hit the ground running. And we need that. We cannot have the proverbial ball dropped in transition from the current administration.

Big 3 Auto Loans: I will not comment on the efficacy of the proposed $25 billion loan to the Big 3 Automakers and will abstain from voting thereon. This is because I own property on which a subsidiary of General Motors Corporation is my tenant. So, I believe it would be inappropriate for me to vote on a direct taxpayer subsidy to a company by name from which I derive substantial income. Interestingly, the ethics committee of the House said I have no conflict and can vote and speak as I wish. I disagree. How ethical the ethics committee is is a story for another day.

The Problem with the Big 3: You may know that I spent 25 years in the retail car business before I lost my mind and went into politics. During that time, I held GM franchises including Saturn, Saab, Buick and GMC Trucks and Ford Franchises including Ford, Lincoln, Mercury and Mazda (partly owned by Ford). So, I know a little bit about the industry and these companies. And although I will not comment on whether or not they should receive government loans, I will comment on what they need to make money again, with or without the loans.

First of all, the current environment is the worst for the car business since the depression without a close second. And not just the American car companies are hurting. Toyota and Honda are way down and not making money in North America right now either. In my car business life, I have lived through recessions, credit crunches and gas crises, but never all 3 at one time. That is what is happening now, and it is really hurting sales, which by the way, makes it a great time to buy a car. But I digress....

GM will still sell nearly 12 MILLION cars and trucks this year. They are the number one automaker in North America. They are also number one in China and Russia. They are always in the top 3 in Europe and every other major or emerging market on earth. They are still the 2nd biggest automaker on the globe just recently having fallen behind Toyota. That is huge market success. Why can't they make money with that kind of market success?

You hear about their union contracts or the number of brands they have or a lack of small cars as reasons the Big 3 are losing money. All of those have some effect. But to me, there's one reason that is as great as all of them that no one talks about. It is the culture in those companies. GM just had it's 100th anniversary. Ford has been around longer. Walter P. Chrysler started a little later. GM in the 50s had a motto - 60-60 60. It stood for 60% market share; $60/share stock price by 1960. They almost made it. All 3 have been enormously big and powerful entities for a long long time. Unfortunately, they think they still are.

They need to stop acting like the all-knowing biggest industrial companies on earth and start being scrappy companies with great brands that are making every sacrifice and trying every new idea to survive: less arrogance; more enterprise. Will this fix them on its own? No, but I'm not sure they can recover without it. And I say this as a car guy who truly has gasoline in his veins. I love car, and I love the great American cars, the Fords, Lincolns, Cadillacs, Chryslers and Chevys that are icons of American life and American culture. It is hard for me to imagine an America without them. But with or without government loans, they will have to do it on their own at some point. I hope they do.

Happy Thanksgiving!

Until next time, I remain respectfully,

Congressman John Campbell